Standard .04B(13) – Financial Feasibility.

A hospital capital project shall be financially feasible and shall not jeopardize the long-term financial viability of the hospital.

(a) Financial projections filed as part of a hospital Certificate of Need application must be accompanied by a statement containing each assumption used to develop the projections.

(b) Each applicant must document that:

(i) Utilization projections are consistent with observed historic trends in use of the applicable service(s) by the service area population of the hospital or State Health Plan need projections, if relevant;

This new hospital project is financially viable. The required assumptions are included as part of Revised Table 4, attached as Exhibit A, and are addressed below. As explained below, the utilization projections set forth in Table 1: Statistical Projections are consistent with existing utilization adjusted for population growth and aging.

As described in response to Project Review Standard .04B(2) above, the MSGA bed need projected for the new hospital's ESA is consistent with current utilization and population trends. The new hospital's volume projections, developed in conjunction with Navigant Consulting, are described on page 37 in the response to Question 28 in the Responses to Completeness Questions: First Set. Assuming all of the new hospital's cases are drawn from its relatively compact (18 ZIP code) ESA, the new hospital's market share in 2015 will be 22% in 2015, which is comparable to the market share of the five existing Montgomery County hospitals in the areas from which they draw 85 percent of their patients. Those market shares range from 11% to 27%. *See,* Response to Question 2(c) in the Responses to Completeness Questions: First Set (page 3).

The obstetric volume was projected based on the anticipated shift of existing patients (particularly Maternity Partnership and Kaiser Permanente patients) from Holy Cross Hospital in Silver Spring. The projected volume is only 63 percent of Holy Cross Hospital in Silver Spring's current patients from the ESA.

Psychiatric volume was projected on a county-wide basis. The market for psychiatric cases in Montgomery County was based on the 2008 use rate/1000 population (age 18+, in hospitals with psychiatric units) applied to the projected 2015 population, adjusted for in and outmigration. Holy Cross estimates that the new hospital will serve 5% of the adults needing inpatient psychiatric care in 2015 (369/7342 = 5%).

Emergency department volume was projected based on the number of discharges projected for the new hospital, the percent of discharges in the core market that entered hospitals through an emergency department, and the assumed emergency visit admit rate. *See,* Response to Question 29 in the Responses to Completeness Questions: First Set. The 22,107 emergency visits projected for FY15 represent a market share of only 13.7 percent in the new hospital's ESA.

Outpatient surgery volumes were developed using national use rates adjusted for the projected Montgomery County age mix, as described in the response to Question 13(a) in the Responses to Completeness Questions: Second Set. The outpatient surgery volume projected for the new hospital is 15% of ESA's total projected hospital-based outpatient surgery volume. *See*, Response to Question 31(b) on pages 47-49 in the Responses to Completeness Questions: First Set.

(ii) Revenue estimates are consistent with utilization projections and are based on current charge levels, rates of reimbursement, contractual adjustments and discounts, bad debt, and charity care provision, as experienced by the

applicant hospital or, if a new hospital, the recent experience of other similar hospitals;

Revenue estimates for the new hospital are consistent with the HSCRC's methodology for similar Maryland hospitals and with current operations at Holy Cross Hospital in Silver Spring. An inpatient Charge per Case ("CPC") target was developed based on the following methodology:

A statewide CPC, based on an Inpatient Statewide Reasonableness of Charges ("ROC") calculation, was established and then adjusted for the following factors:

Payer mix –same payer mix as SGAH, adjusted for patient service mix at the new hospital

Labor market –same labor market index as Holy Cross Hospital

Medical education – no teaching program at the new hospital

Capital –capital costs have been included in rates in accordance with the HSCRC methodology of 50% hospital specific and 50% statewide average. The hospital specific capital costs were based on the third full year of operations, excluding capital costs related to parking, shell space and costs above the MVS standard.

Based on current methodology, the FY10 target for the new hospital was estimated to be $9,940 at a case mix of 1.0 (increased 1.77% in FY 10 for the HSCRC-approved rate increase).

Average charges per outpatient visit were developed by service line based on FY 2009 experience at Holy Cross Hospital in Silver Spring, applied to the forecasted outpatient volumes in the financial model (increased 1.77% in FY10 for HSCRC-approved rate increase). To ensure that the outpatient revenue was reasonable, charges were compared to State-wide median rates and revenue and appeared consistent with current HSCRC methodology.

Contractual allowances were forecasted to be 9.36% of gross patient revenues each year, based on current experience at Holy Cross Hospital in Silver Spring. Charity care was forecasted to be 2.3% of gross patient revenues each year, based on current experience at Holy Cross Hospital of Silver Spring. Bad debt expense was forecast to be 4.2% of gross patient revenues each year, based on current experience at Holy Cross Hospital in Silver Spring and expectations at the new facility.

Uncompensated care (charity care plus bad debt expense) for the new hospital was based on the experience at Holy Cross Hospital in Silver Spring. The projected level of uncompensated care is comparable to the uncompensated care predicted for SGAH.

(iii) Staffing and overall expense projections are consistent with utilization projections and are based on current expenditure levels and reasonably anticipated future staffing levels as experienced by the applicant hospital, or, if a new hospital, the recent experience of other similar hospitals; and

Staffing levels were forecasted based on "Full Time Equivalents per Adjusted Occupied Bed" targets ("FTEs per AOB") with the volumes expected at the new site. FTEs per AOB targets were approximately 4.6 – 4.7 for the forecast periods based on prior experience at Holy Cross Hospital in Silver Spring, limited efficiencies for certain administrative duties, and comparisons to national benchmarks for similar facilities.

Average salaries per full time equivalents were estimated based on current experience at Holy Cross Hospital in Silver Spring by job category. Benefits were estimated as a percentage of salary based on the ratios at Holy Cross Hospital in Silver Spring.

Other operating costs, i.e., supplies, purchased services and related expenses, were forecast based on expenses per adjusted patient day ratios at Holy Cross Hospital in Silver Spring, adjusted for variability by volumes and case mix index

> **(iv) The hospital will generate excess revenues over total expenses (including debt service expenses and plant and equipment depreciation), if utilization forecasts are achieved for the specific services affected by the project within five years or less of initiating operations, with the exception that a hospital may receive a Certificate of Need for a project that does not generate excess revenues over total expenses even if utilization forecasts are achieved for the services affected by the project when the hospital can demonstrate that overall hospital financial performance will be positive and that the services will benefit the hospital's primary service area population.**

The financial forecast, based on reasonable volume, revenue and expense assumptions, estimates profitability in the third year of operations for the new hospital in Germantown. *See,* Revised Table 4, attached as Exhibit A.

Because this standard requires that the new hospital "generate excess revenues over total expenses (including debt service expenses and plant and equipment depreciation), if utilization forecasts are achieved ... within five years or less of initiating operations," a table relating expected performance in 2017 – the fifth year of the new hospital, is attached as Exhibit B. . This table, unlike Table 4, includes inflation in both rates and costs. Not only does the table show net income of approximately $5 million, but it also shows that capital cost, in the fifth year, will be 15.2% of total operating expenses ($6,493+$11,257 / $116,872 = .152) and 14.6% of net operating revenue (($6,493+$11,257 / $121,425 = .146). Given HCH's history of operational efficiency, as discussed under Section .08G(3)(c), Availability of More Cost-Effective Alternatives, it is clear that the Germantown facility's projection of profitability by the fifth year is very

credible.

These data refute Dr. Cook's claim (*See October 5, CCH Reply to Comments Submitted by HCH, Exhibit 4)* that the Germantown facility would not generate profits in 2017. Additionally, it is important to note what Dr. Cook did not dispute regarding Holy Cross's arguments in its Comments on AHC's Clarksburg proposal.. He did not dispute that the original rates for SGAH were set using a methodology that included SGAH's principal payments and that such a methodology resulted in less in rates for capital than the current HSCRC methodology. Dr. Cook also did not dispute that the SGAH rates included a very substantial reduction for efficiencies that SGAH promised during the CON process – a percentage reduction less than embodied in the current methodology for setting the rates of new hospitals. Finally, Dr. Cook noted that SGAH actually made profits in its fifth year despite this very restrictive initial rate setting. Holy Cross's position is that if SGAH could make profits in the fifth year under a more restrictive initial rate order, then HCH could certainly make profits in the fifth year at the proposed Germantown facility.

EXHIBIT A

Holy Cross Health - Germantown
Table 4: Revenue and Expenses - Project
For the Fiscal Years 2010 - 2015

Note: Dollars in Thousands and in Current FY 2010 Dollars

	Budget	Projected (Ending with first full year of utilization)				
Fiscal Year Ended June 30,	2010	2011	2012	2013	2014	2015
1. Revenue						
a. Inpatient Services	$ -	$ -	$ -	$ 22,417	$ 56,665	$ 68,611
b. Outpatient Services	-	-	-	11,948	33,107	36,066
c. Gross Patient Services Revenues	-	-	-	34,365	89,772	104,677
d. Allowance for Bad Debt	-	-	-	(1,443)	(3,770)	(4,396)
e. Contractual Allowance	-	-	-	(3,217)	(8,405)	(9,739)
f. Charity Care	-	-	-	(790)	(2,065)	(2,408)
g. Net Patient Services Revenue	-	-	-	28,915	75,532	88,135
h. Other Operating Revenues	-	-	-	934	2,441	2,848
i. Net Operating Revenue	-	-	-	29,850	77,973	90,983
2. Expenses						
a. Salaries, Wages, and Professional Fees (including fringes)	-	-	-	14,111	36,877	42,996
b. Contractual Services	-	-	-	4,260	9,412	9,803
c. Interest on Current Debt	-	-	-	-	-	-
d. Interest on Project Debt	-	-	-	2,564	6,839	6,730
e. Current Depreciation	-	-	-	-	-	-
f. Project Depreciation	-	-	-	5,054	10,257	10,557
g. Current Amortization - included in Depreciation	-	-	-	-	-	-
h. Project Amortization - included in Depreciation	-	-	-	-	-	-
i. Supplies	-	-	-	5,167	13,562	15,725
j. Other Expenses (Pre-opening recruiting, training and other related costs in 2013 - Insurance, Utilities, Repairs)	-	-	-	7,960	3,335	3,474
k. Total Operating Expenses	-	-	-	39,115	80,284	89,285
3. Income						
a. Income from Operations	-	-	-	(9,266)	(2,311)	1,698
b. Non-Operating Income	-	-	-	-	69	222
c. Subtotal	-	-	-	(9,266)	(2,242)	1,920
d. Income Taxes	-	-	-	-	-	-
e. Net Income (Loss)	$ -	$ -	$ -	$ (9,266)	$ (2,242)	$ 1,920

Holy Cross Hospital - Germantown
Table 4: Patient Mix
For the Fiscal Years 2010 - 2015

Fiscal Year	Projected Years (ending with first full year utilization)					
	2010	2011	2012	2013	2014	2015
2. Patient Mix						
A. Percent of Net Patient Service Revenues*						
1) Medicare	n/a	n/a	n/a	34.8%	35.3%	35.8%
2) Medicaid	n/a	n/a	n/a	12.4%	12.3%	12.2%
3) Blue Cross	n/a	n/a	n/a	12.9%	12.8%	12.7%
4) Commercial Insurance	n/a	n/a	n/a	31.8%	31.5%	31.3%
5) Self-Pay	n/a	n/a	n/a	5.1%	5.1%	5.1%
6) Other	n/a	n/a	n/a	3.0%	3.0%	3.0%
7) Total	n/a	n/a	n/a	100.0%	100.0%	100.0%
B. Percent of Patient Days/Visits/Procedures (as applicable)						
1) Medicare	n/a	n/a	n/a	33.5%	36.2%	36.8%
2) Medicaid	n/a	n/a	n/a	12.8%	12.3%	12.2%
3) Blue Cross	n/a	n/a	n/a	12.9%	12.3%	12.2%
4) Commercial Insurance	n/a	n/a	n/a	32.3%	31.0%	30.8%
5) Self-Pay	n/a	n/a	n/a	5.4%	5.2%	5.2%
6) Other	n/a	n/a	n/a	3.0%	2.9%	2.8%
7) Total	n/a	n/a	n/a	100.0%	100.0%	100.0%

* Gross patient charges

Note: Commercial Insurance includes Managed Care

Holy Cross Hospital - Germantown
Assumptions

Table 4: Revenue and Expenses - Project

Projections for FY13 to FY15 include the following assumptions:
The hospital in Germantown, MD will open in January 2013 (FY13)

Dollars are in current Fiscal Year 2010 values
Patient revenue was based on statewide, case mix adjusted charge per case.
Outpatient revenue was based on statewide median rates.

	2010	2011	2012	2013	2014	2015
Change in discharges, acute					151.6%	20.5%
ALOS, acute				4.3	4.3	4.3
Charge per Case target at 1.0 (See "Inpatient ICC Buildup" schedule)				$ 9,940	$ 9,940	$ 9,940
Case Mix Index				0.8951	0.8996	0.9041
Change in Case Mix Index					0.5%	0.5%
Change in outpatient visits					177.1%	9.4%
Change in outpatient mix / intensity					0.0%	0.0%
Discount on revenue for increased volume					0.0%	0.0%

Charity care and bad debt are assumed at 6.5% of gross revenue from FY13 to FY15.
Operating expenses were based on the Holy Cross FY 2010 budget, adjusted for Germantown's expected patient volume and severity
FTEs are 100% variable with volume in FY14 and FY15.
Salaries and benefits will increase as FTEs increase.

Medical supplies and drugs were increased 100% variable with patient volumes and adjusted for case mix.
Contractual services and other expenses were increased 75% and 25% variable with patient volumes for FY14 and FY15, respectively.

Depreciation for the project: Building = 40 years Equipment = 7 years
Interest on long term debt for the project is 5.0%.
Philanthropy for the project will be $15M raised from FY11 - FY16.

Table 4: Patient Mix
The Medicare patient mix will increase annually due to the aging population in the service area.

Holy Cross - Germantown

Inpatient ICC Buildup

Statewide Peer Group Excluding UMMC & JHH

Statewide Stripped CPC excl. JHH and UMMS	$9,105
Buildup:	
Non-Teaching IME	(701)
DSH	(0.98%)
Capital	2.93%
Labor Market	1.0239
Direct Strips	$0
Markup	1.1146 (1)
Modified ICC Result	$9,767
FY 2010 Statewide Rate Increase	1.77% (2)
Modified ICC Result	$9,940

Note 1: Calculation of Markup based on CON Payer Mix

		Germantown	
Ratio of Medicare & Medicaid Charges	A	0.4720	per CON 2013
Ratio of Blue Cross I/P Charges	B1	0.0864	per CON 2013
Ratio of Blue Cross O/P Charges	B2	0.0426	per CON 2013
Ratio of MCO Medicare, Medicaid Charges	C	0.0000	per CON 2013
Deductibles Paid by Medicaid & Blue Cros	D	0.0000	per CON 2013
Provision for Uncollectable Accounts :	EP - Prospective	0.0650	per CON 2013
Provision for Other Payors :	FP = 1 - (A + B1 + B2 + C + EP)	0.3340	
Approved Markup:	GP = GP (.06A+.0225B1+.02B2+.06C+.02D+EP+.02FP)+H	1.1146	

Note 2: Effective July 1, 2009 the HSCRC approved a final update factor of 1.77%.

EXHIBIT B

Holy Cross Health - Germantown
Revenue and Expenses - Project
For the Fiscal Years 2017 (with Inflation)

Note: Dollars in Thousands and in FY 2017 Forecasted Dollars

Fiscal Year Ended June 30,	Projected 2017
1. Revenue	
a. Inpatient Services	$ 88,292
b. Outpatient Services	51,416
c. Gross Patient Services Revenues	139,708
d. Allowance for Bad Debt	(5,868)
e. Contractual Allowance	(13,003)
f. Charity Care	(3,213)
g. Net Patient Services Revenue	117,624
h. Other Operating Revenues	3,801
i. Net Operating Revenue	121,425
2. Expenses	
a. Salaries, Wages, and Professional Fees (including fringes)	60,423
b. Contractual Services	12,539
c. Interest on Current Debt	-
d. Interest on Project Debt	6,493
e. Current Depreciation	-
f. Project Depreciation	11,257
g. Current Amortization - included in Depreciation	-
h. Project Amortization - included in Depreciation	-
i. Supplies	21,556
j. Other Expenses (Insurance, Utilities, Repairs)	4,604
k. Total Operating Expenses	116,872
3. Income	
a. Income from Operations	4,553
b. Non-Operating Income	509
c. Subtotal	5,062
d. Income Taxes	-
e. Net Income (Loss)	$ 5,062